

Swiss AGM Season 2019/2020: Active shareholders despite Corona- Lockdown

Zurich, 18 June 2020 – Increasing voting participation despite non-physical annual general meetings, proxy advisors with considerable influence on minority shareholders, corporate social responsibility even more in focus due to the Corona crisis, most critical votes again in Board elections, and distinct shareholder criticism on compensation at SMI and non-SMI companies. These are the main findings of the analysis of the general meetings of the 100 largest Swiss listed companies in the period between July 2019 and June 2020 conducted by SWIPRA Services.

- The representation of voting rights at Annual General Meetings (AGMs) was again slightly higher at 71.1% in 2020 despite the Corona crisis and the absence of physical shareholder participation.
- The influence of individual proxy advisors on AGM voting outcomes declined somewhat but remains high, especially for the group of minority shareholders.
- The five largest shareholders of the 100 largest companies listed in Switzerland control individually on average more than 3% of the sample companies' equity and together around 18%. However, they differ significantly in their investment strategies, governance priorities, and the way they vote at AGMs.
- AGM votes reflect criticism in corporate social responsibility (CSR) matters only to a minor extent yet. The majority of Switzerland's largest companies rank among the top 25% within their industry in terms of the widely used Sustainalytics® ESG risk rating. CSR-related questions are mainly addressed in engagement meetings with the Board.
- The corona crisis is likely to bring socially responsible action even more into the focus of

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shareholders, especially in view of the 2021 AGM season. In particular, this concerns the allocation of capital, the compensation policy and governance, and the role of the Board of Directors in the area of CSR as well as its integration with corporate strategy.

- Board elections are polarized between two extremes: either completely unproblematic or very critical, with the proportion of Board elections amongst the most critical AGM items increasing from 56.0% in 2019 to 65.6% in the 2020 season. Against votes are usually attributed to a “lack of independence” of the Board candidate.
- Diversity in Swiss boards of directors continues to rise, with a higher proportion of women on the Boards of the largest 100 companies and an increasing internationalization of SMI Boards.
- Distinct compensation issues between SMI and non-SMI companies: The highest CEO salaries fell at SMI companies and rose at non-SMI companies. At AGMs, shareholders were more critical on compensation amounts at SMI companies, compared to previous years, and on compensation reports of non-SMI companies.



Shareholders: Exercising voting rights despite non-physical AGMs

The Swiss AGM season 2020 was extraordinary like many things in the Corona period. The Federal Council allowed companies to hold their AGMs without shareholders being physically present. This possibility should be introduced with the next revision of Swiss corporate law, yet the crisis has proven that this decision was an appropriate move in the crisis. In many other countries, companies were not or only at a later stage allowed to conduct non-physical shareholder meetings due to the Corona crisis. Because of the crisis, Swiss AGMs received far less public attention than in the past, shareholders were represented entirely by the independent proxy, and the AGMs often lasted less than an hour. At the same time, the median fraction of voting rights represented at the AGM increased from 70.1% to 71.1%. This is remarkable in light of the average physical representation of 24.6% of the votes at the 2019 AGMs. Shareholders' desire to be actively involved in AGM decisions should be interpreted as a positive signal. Besides, the dialogue between institutional investors and companies, which is generally not observable in public, has nevertheless taken place in the run-up to the AGMs as the diminished influence of proxy advisors suggest. The 2020 proxy season also provides prove that virtual AGMs work in principle. Nevertheless, we expect a return to physical meetings as the direct interaction with top management remains an important element of shareholder democracy and corporate communications. This can also be observed in countries where virtual general meetings are already possible, but generally only practiced by few companies.

Proxy Advisors: Despite decreasing influence, a considerable impact on minority shareholders

In the 2020 AGM season, shareholders adhered less to the recommendations of the major proxy advisors. The estimated influence of the world's largest advisor, Institutional Shareholder Services (ISS), on Swiss AGM voting outcomes decreased from 16.8% to 12.9% (see Fig. 1).

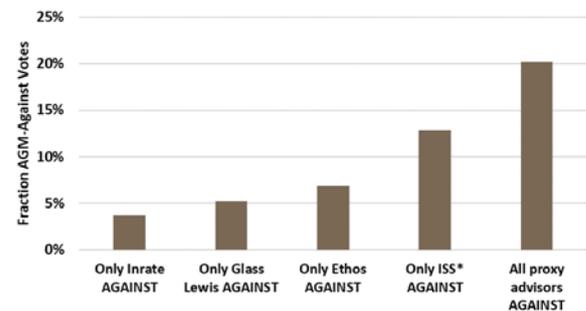


Figure 1: Influence of Proxy Advisors
Fraction against votes on agenda items that were only recommended AGAINST by a single proxy advisor.

However, if only minority shareholders in companies with a major shareholder are considered, on average, the estimated influence of ISS increases to 26.6% of the votes cast by minority shareholders. Companies with a major shareholder are also viewed more critically by all proxy advisors and, on average, receive an AGAINST recommendation for 13.2% of the agenda items. For widely-held companies, this is the case for only 7.7% of the agenda items.

Continuously critical minority shareholders

Not only proxy advisors but also minority shareholders in companies with a major shareholder are particularly critical in voting at AGMs. In 50% of the cases, at least 17.8% of the minority shareholders voted against the compensation report, compared to 14.5% in the previous year. One explanation for this behavior is provided by the [SWIPRA Corporate Governance Survey 2019](#), in which only a third of the investors stated that access to the Board of Directors was sufficient in companies with a major shareholder, and over 60% felt that disclosure was not as good as in companies with a dispersed shareholder base. Less meaningful disclosure combined with limited willingness to engage in a dialog generally reinforces shareholder criticism at AGMs. If the Board is not available to discuss potential issues, many shareholders end up relying on proxy advisors' recommendations. This may become a significant risk for companies as soon as a major shareholder sells or reduces its stake.



Institutional shareholders with diverse approaches to influence portfolio companies

Large institutional shareholders also call on proxy advisors and use their recommendations as a basis for their analyses, which are often affected by current issues and regulations in the investor's country of origin (see Fig. 2). The five largest shareholders together control an average of more than 18% of the analyzed companies' values but adhere to different approaches in their investment strategies and interaction with portfolio companies. The four largest shareholders, three from the US and the Norwegian Sovereign Wealth Funds (SWF), usually vote less critically at AGMs and, on average, rejected around 11.5% of the agenda items, while the fifth-largest shareholder, a Swiss asset manager, rejected about 20%. The Norwegian SWF further follows an active investment strategy, excluding certain industries from its portfolio.

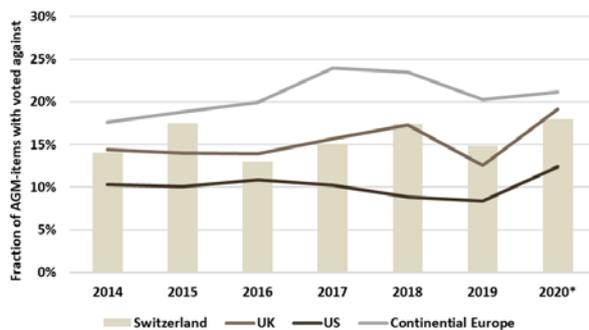


Figure 2: Against votes according to investor origin
Fraction of AGM items voted against, split according to institutional investor origin. Sample: 50 largest SPI®-companies, Source: ProxyInsight®

Dr. Christoph Wenk, Partner at SWIPRA, comments: "The priorities of these shareholders sometimes differ sharply. Companies need to understand who their largest shareholders are and how they set their priorities. This way, surprises at the AGM can generally be avoided. If no or a limited dialogue takes place, institutional shareholders typically have to follow the advice of proxy advisors".L

Corporate Social Responsibility: Not an AGM topic yet in Switzerland

Despite the often alleged investor short-termism, socially responsible conduct, or Corporate Social Responsibility (CSR) and thus a more long-term

orientation of their investment strategies seems increasingly important to shareholders. In the US, CSR is often directly addressed by shareholder proposals at AGMs. In Switzerland, not least because of the higher hurdles for shareholder resolutions, this is less the case. Large investors convey their CSR-related concerns in engagements during the year, and only reflect very critical issues in their AGM voting decisions on Board elections or the discharge. To date, this has rarely been the case, not least because Swiss companies perform well compared to their industry in the widely-used Sustainalytics ESG risk rating. Barbara Heller, Managing Partner at SWIPRA, comments: "Socially responsible action is gaining attention quickly, even more now due to the Corona-crisis. Stakeholders expect the Board to actively communicate key decisions on capital allocation, in particular on their investment strategy concerning the future of the company and the respective financing, their treatment of people and the environment, dividend payments, and remuneration systems and put them into context with the long-term strategy. On the other hand, institutional shareholders have yet to prove to what extent they walk the talk and effectively act socially responsible as suggested in their ESG investment strategies".

Board of Directors: Gap between unproblematic and critical elections widens

The gap between uncritical and very critical Board elections widened further. This year, 65.6% of the most critical agenda items (with more than 20% against votes) concerned Board elections (see Fig.3), compared with 56.0% in the previous year. Also, the ten largest shareholders in the analyzed companies on average voted against 19.0% of the Board election proposals, compared to only 14.5% in 2019. At the same time, the proportion of proxy advisors recommending AGAINST elections of compensation committee candidates rose from 15.1% to 20.6% on average. The most frequently cited reason for voting against a director remained the "lack of independence" (72.5%), followed by "overboarding" (21.6%). The work of the Board has rightly become more prominent in recent years.



This will be even more accentuated by the Corona crisis and other operational risk factors such as insufficient integrity, compliance violations or cyber-attacks and related reputational damages. We expect that the trends observed will continue into the 2021 AGM season and that key positions within the Board will be under increased observation.

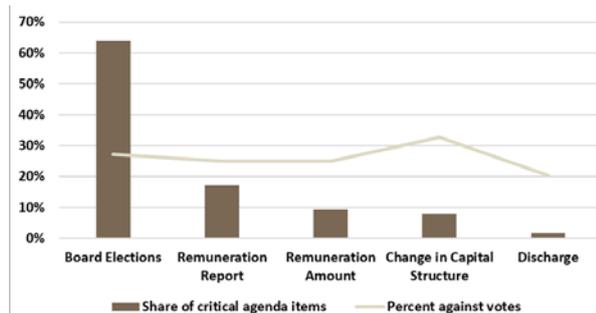


Figure 3: Most contested agenda items 2020
Most critical agenda items (>20% against votes) of the 100 largest SPI® companies, split according to topics.

The 2020 AGM season continued the ongoing trend towards more diversity in Swiss Boards. The share of women in Boards further increased to 28.2% in SMI and 22.7% in non-SMI companies (2019: 27.4% and 22.0%, respectively). In SMI companies, the proportion of non-Swiss nationals on Boards of directors also increased to 58.0% (2019: 54.5%).

Compensation: SMI und Non-SMI companies with distinct issues

Concerning management compensation, proxy advisors and shareholders identified differing issues for SMI and non-SMI companies. For SMI companies, the level of criticism increased for compensation amounts (14.1% rejection in the most critical quarter and a 26.5% share of proxy

advisors' AGAINST recommendations), with the average total CEO compensation in the highest 25% of the SMI falling by 3.8% to CHF 11.6 million. Non-SMI companies, on the other hand, were seen more critically on their compensation reports (23.1% rejection in the most critical quarter and 41.6% of proxy advisors' AGAINST recommendations), with the average total CEO compensation in the highest 25% of the non-SMI companies rising by 4.3% to CHF 5.0m. Due to the Corona crisis, some ad-hoc adjustments to compensation systems have already been observed. The 2021 AGM season will show how robust companies' compensation systems and compensation policies are.

About the SWIPRA AGM-Analysis 2019/2020

SWIPRA analyzed the results of AGM's held by the 100 largest Swiss listed companies (SPI100) during the period between July 1, 2019 and May 30, 2020 together with researchers from the Department of Banking and Finance of the University of Zurich. Data on ISS recommendations is not publicly available and approximated by market observations. The overall analysis contains more data than described in here. For further information, please contact SWIPRA.

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